

**GAO**

**Testimony**

**Before the Subcommittee on Commerce,  
Trade, and Consumer Protection,  
Committee on Energy and Commerce,  
House of Representatives**

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**INTERNATIONAL TRADE**

**Effective Export Programs  
Can Help In Achieving U.S.  
Economic Goals**

Statement of Loren Yager, Director  
International Affairs and Trade



**GAO**

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear today before the Subcommittee to provide our perspective on the role of exports in the U.S. economy. As Congress responds to the rapid deterioration in the U.S. economy, it must consider the full range of tools available to further growth and create new jobs for U.S. workers. Some of these tools are related to promoting exports, which can have broad benefits to the U.S. economy. Today, I will lay out some observations regarding export promotion challenges from a range of work that we have conducted for Congress over recent years.

In my statement today, I will provide some background information concerning the ways in which exports can enhance U.S. economic output, and I will summarize some of the work we have conducted to address congressional interest in promoting the growth of exports and improving export promotion programs.

My remarks are based on a variety of reports and testimonies we have issued on a range of international trade issues over the past 4 years. We conducted this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Exports, and trade more broadly, contribute to the U.S. economy in a variety of ways. Trade enables the United States to achieve a higher standard of living through producing and exporting goods and services that are produced here relatively efficiently, and importing goods and services that are produced here relatively inefficiently. An indication of this is that firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically oriented firms of the same size.

U.S. exports of manufactured goods grew from \$730 billion in 2004 to \$1.1 trillion in 2008. U.S. exports of non-manufactured products grew from \$89 billion in 2004 to \$178 billion in 2008. These exports have come from every state. For example, in 2008 Illinois exported \$49 billion worth of manufactured goods and \$5 billion in non-manufactured goods. Similarly, California exported \$127 billion in manufactured goods and \$18 billion in

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non-manufactured goods, of which nearly \$8 billion were agricultural products.

In addition to the longer-term benefits of trade and exports, exports can serve as a countercyclical force for the U.S. economy, strengthening the economy when other parts of it are relatively weaker. For a number of years, as the United States increasingly imported more than we exported, the U.S. economy was an engine of growth for other nations. In contrast, when the U.S. economy slowed in 2007 and much of 2008, U.S. economic growth was boosted by an improving trade balance. With strong global demand for U.S. goods and services, increases in net exports (exports minus imports) accounted for over half of U.S. economic growth in the past 2 years. Unfortunately, when U.S. trading partners are also experiencing economic downturns, as we are currently seeing, the potential for trade to continue to serve as a countercyclical force is diminished.

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## GAO Has Addressed Longstanding Concerns about Challenges to Achieving Economic Benefits through Export Promotion

Congress has expressed longstanding concerns regarding several aspects of U.S. export promotion efforts, especially regarding interagency coordination, meeting the needs of small businesses, and effectively enforcing trade agreements. We have addressed these concerns by reviewing and providing recommendations on a wide range of U.S. policies and programs that have the potential to increase U.S. exports. Effective export promotion policies are always important, but are of particular interest in the current environment. My statement today will address three policy areas: (1) coordinating export promotion programs; (2) effectively meeting the needs of small businesses; and (3) monitoring and enforcing trade agreements to broaden U.S. access to foreign markets.

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## Coordination of Export Promotion Efforts Can Help Maximize Benefits from Agency Activities

The Trade Promotion Coordinating Committee (TPCC) is charged with providing a unifying interagency framework to coordinate U.S. export promotion activities and develop a government-wide strategic plan. TPCC member agencies provide a wide range of export promotion activities, including the Department of Commerce's advice and advocacy to businesses during the export process, the Department of Agriculture's financing for promotional activities, and the Export-Import Bank's (Ex-Im) loan guarantees for foreign buyers of U.S. exports. According to the TPCC's 2008 *National Export Strategy*, nine member agencies had about

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\$1.3 billion in budget authority for export promotion programs in fiscal year 2008.<sup>1</sup> Two agencies accounted for more than three quarters of the reported total export promotion budget—Agriculture with \$644 million and Commerce with \$339 million, followed by the Department of State with \$184 million. Other agencies can play significant roles in export promotion, despite their smaller budget authorities. Ex-Im, for example, has recently requested no budget authority, projecting that the fees it collects will offset its costs. Nonetheless, in fiscal year 2008, Ex-Im authorized \$14.4 billion in loans, guarantees, and export-credit insurance to support U.S. exports.

One of the longstanding congressional concerns we have addressed is a lack of effective coordination of trade promotion activities. We have reviewed the TPCC several times since its inception and we testified in 2006 that the TPCC had made progress over time in improving coordination.<sup>2</sup> However, we also testified that its *National Export Strategy* continued to provide limited information on agencies' goals and progress relative to broad national priorities. Examples of positive steps we reported on across TPCC member agencies included improvements in interagency training and joint outreach to better serve small business. We further noted that the strategies did not review agencies' allocation of resources in relation to government-wide export promotion priorities. We note now that the 2008 *National Export Strategy* contains information regarding the status of priority initiatives identified in the prior year's annual report. It also contains information on individual TPCC member agencies' export promotion strategies and results. However, the strategy still lacks an overall review of agencies' allocation of resources relative to government-wide export promotion priorities.

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<sup>1</sup>TPCC has 20 member agencies. However, it generally reports in the *National Export Strategy* on the budgets and activities of around 10. The 2008 strategy included budget authority information for 9 agencies: Departments of Agriculture, Commerce, State, and the Treasury; Ex-Im, Overseas Private Investment Corporation, Small Business Administration, U.S. Trade and Development Agency, and the Office of the U.S. Trade Representative.

<sup>2</sup>GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO-06-660T (Washington, D.C.: April 26, 2006).

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## Broadening Trade Benefits by Increasing Small Business Exports Is a Trade Priority

Promoting exports by small businesses has been a perennial priority in the *National Export Strategy*. In addition, USTR's 2009 *Trade Policy Agenda* calls for using trade and commercial policies to help small and medium businesses become more effective competitors and exporters in the global marketplace. While many small businesses export, it is widely recognized that they face a number of challenges in exporting.<sup>3</sup> For example, small businesses typically do not have overseas offices and may not have much knowledge regarding foreign markets. Export promotion agencies have developed various goals with respect to their small business assistance, and in some cases Congress has mandated specific requirements for supporting small businesses.

My remarks will focus on our findings regarding Ex-Im's efforts to address congressional mandates regarding its small business financing. Since the 1980s, Congress has required that Ex-Im, which provides loans, loan guarantees, and insurance to finance U.S. exports, make available a certain percentage of its export financing for small business. Since 2002, Congress has required that share be at least 20 percent. Moreover, in Ex-Im's 2006 reauthorization, Congress directed Ex-Im to establish performance standards for assessing its small business financing efforts, including activities directed at businesses owned by socially and economically disadvantaged individuals and women.

We identified two types of challenges in monitoring Ex-Im's support for small businesses:

- *Developing effective performance measures.* We found that Ex-Im had developed performance standards for assessing its small business financing efforts in most, although not all, of the areas specified by Congress, ranging from providing excellent customer service to increasing outreach.<sup>4</sup> We also found that some measures for monitoring progress against the standards lacked targets and timeframes, and that Ex-Im was just beginning to compile and use the small business information it was collecting to improve operations. GAO made several recommendations to

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<sup>3</sup>According to the 2008 *National Export Strategy*, 97 percent of firms that export are small or medium enterprises. However, a very low proportion—less than 1 percent—of U.S. firms export.

<sup>4</sup>See GAO, *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring Their Effectiveness*, GAO-08-915 (Washington, D.C.: Jul. 17, 2008).

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Ex-Im for improving its performance standards and Ex-Im agreed to take steps to address them.

- *Maintaining reliable data and reporting.* In 2006, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement; Ex-Im has taken steps to address those weaknesses.<sup>5</sup> One notable improvement has been the introduction of "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. This contributed to more timely and accurate information on Ex-Im's financing, and thus a greater level of confidence in Ex-Im's reporting on its efforts relative to congressional goals.

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## Trade Agreements Need to Be Effectively Monitored and Enforced to Ensure U.S. Companies Can Benefit

A top trade priority for the United States is opening foreign markets for U.S. goods and services by ensuring that U.S. trading partners comply with existing trade agreements. These agreements have addressed traditional barriers to trade such as tariffs, as well as other obstacles ranging from weak intellectual property protection to selective enforcement of agricultural inspection requirements. As a result, monitoring and enforcing these agreements—which number in the hundreds and cover the vast majority of U.S. exports—is a key responsibility for U.S. government agencies.

Congress has expressed longstanding concerns regarding a number of issues, of which I will discuss two related issues:

- *Effective monitoring and enforcement of trade agreements.* We have reported on a variety of issues related to monitoring and enforcing the broad range of U.S. trade agreements with a number of countries.<sup>6</sup> For example, since China's accession to the World Trade Organization in 2001, Congress has been keenly interested in the extent to which China is complying with its obligations. As a result, we have performed a large body of work examining U.S. government efforts to oversee China's implementation of its trade obligations. Most recently, we reviewed

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<sup>5</sup>See GAO, *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing*, GAO-06-351 (Washington, D.C.: March 3, 2006) and GAO, *Export Promotion: Export-Import Bank has Met Target for Small Business Financing Share*, GAO-08-419T (Washington, D.C. Jan. 17, 2008).

<sup>6</sup>See, for example, GAO, *International Trade: Further Improvements Needed to Handle Growing Workload for Monitoring and Enforcing Trade Agreements*, GAO-05-537 (Washington, D.C.: June 30, 2005).

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USTR's annual reporting on China's compliance.<sup>7</sup> Our analysis of these reports identified about 180 compliance issues with China, ranging from agriculture policies to China's legal system. Of these, we found that USTR had resolved 23 percent, achieved some progress on 40 percent, and made no progress on 37 percent. We are also in the process of completing a report analyzing the results of free trade agreements between the United States and four countries.

- *Sufficiency of agencies' human capital to perform monitoring and enforcement responsibilities.* We have previously reported that the workload for agencies responsible for monitoring and enforcing trade agreements has increased significantly and that the agreements they monitor and enforce have become more complex.<sup>8</sup> Effective monitoring and enforcement requires significant expertise—often involving staff with expertise in trade policy, the foreign country, and the particular industry. However, we have found that trade agencies face constraints to developing and accessing necessary expertise. For example, after identifying a lack of training for U.S. government staff overseas regarding monitoring and enforcing trade agreements, we recommended that key trade agencies jointly develop a strategy for meeting those training needs to better equip staff to handle increasingly complex or technical barriers to U.S. exports. Let me also mention that while in China last week, I heard a number of examples of situations in which having specialized U.S. government personnel in the embassy and consulates can be a great benefit to U.S. firms and their ability to serve foreign markets.

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Chairman Rush and Ranking Member Radanovich, this concludes my remarks. I appreciate the opportunity to discuss these issues with you today. We would be glad to work with the Subcommittee in the future on other issues related to foreign commerce. I am happy to answer any questions you may have.

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## Contact and Acknowledgments

For further information about this testimony, please contact me at (202) 512-4347 or by e-mail at YagerL@gao.gov. Celia Thomas (Assistant Director), Jason Bair, Adam Cowles, Gezahegne Bekele, Karen Deans, and Richard Krashevski made contributions to this testimony.

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<sup>7</sup>GAO, *U.S.-China Trade: USTR's China Compliance Reports and Plans Could Be Improved*, GAO-08-405 (Washington, D.C.: April 14, 2008).

<sup>8</sup>GAO-05-537.

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